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MENA: Obama's Middle East speech underlines support

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President Barak Obama's speech highlighted US support—financial and political—for countries MENA countries on the road to democracy.

Yesterday's speech on the Middle East by President Barak Obama at the US State Department heralded increased financial and economic policy support for the region—with a call for more global participation in the effort. This has been well-received, if generally anticipated. There is still much unknown about the resources that could be put toward economic support and stabilisation programs, particularly at the multilateral level, but the US has now publicly put its weight behind a broad support package. The political messages that emerged from the speech are somewhat similar to those of the past, while taking a somewhat tougher line on Israel.

Broad economic support, others must join in the effort

One of the most important take-aways from yesterday's speech for markets should be the broad US commitment to support the region through financial assistance. At the same time, however, it was clear that US policy is focused on encouraging a range of stake-holders to participate in the financial support efforts—ideally from the region itself (though this could prove politically challenging). In this vein, a number of key measures were announced:

- The World Bank and the IMF were asked to present a plan at next week's G-8 summit for the stabilisation and modernization of the economies of Tunisia and Egypt. Other countries were asked to help Egypt and Tunisia meet near-term financial needs.
- Egypt was offered up to \$1bn in debt relief, along with an additional \$1bn in loan guarantees
- Mr Obama promised to help newly democratic governments recover assets that were stolen.
- Enterprise Funds to invest in Tunisia and Egypt will be created. These will be modelled on funds that supported the transitions in Eastern Europe after the fall of the Berlin Wall.
- OPIC will soon launch a \$2 billion facility to support private investment across the region.
- The US will work with its allies to reorient some of the EBRD's lending, which has traditionally focused on Eastern Europe, toward supporting investment in the Middle East and North Africa (MENA) region.
- A comprehensive trade and investment partnership initiative for the MENA region will be launched, helping to open the door for those countries who adopt high standards of reform and trade liberalisation to construct a regional trade arrangement.
- Financial support for the spread of technology will be forthcoming, so that free information and expression flows.

These efforts are all likely to be welcome in the region, but concrete proposals will still be needed before many of these plans will see any real results. In the meantime, markets are likely to await news from the ongoing IMF assessment of Egypt's financial needs, which will play an important role in the determination of the size of any international support package (see [Egypt: Assistance on the horizon](#), 13 May 2011 for more details on our view).

Political implications

In assessing the political impact of Mr Obama's speech we believe that it is important to keep two things in mind. First, we doubt that, for all the comparisons he made between the "Arab Spring" on the one hand and the Boston Tea Party and Rosa Parks' civil rights protest, it will have much impact on the US electorate as a whole. Second, the Arab world – which, overall, has been disappointed by what it sees as lack of follow-through on Mr Obama's 2009 speech in Cairo – is likely to remain, at best, guarded in its response until it sees how this latest statement translates in practical diplomacy and other actions.

For all that, as the BBC's North America commentator Mark Mardell has commented: "President Obama's tough line on the Middle East peace process may do more to convince people in the Arab world that America is on their side...". Today's headlines about the speech make clear that the media at least certainly see Mr Obama's call for an Israeli-Palestinian peace settlement based on the 1967 borders and a "full and phased withdrawal of Israeli forces" from the Occupied Territories (where Israel is seeking a residual military presence to counter militant groups) as the biggest story emerging from this speech.

We believe that the White House anticipated a critical Israeli reaction to US positioning, which most commentators see as new in its explicitness (if not, in practice, in its actual substance); and that the Administration will not, therefore, have been surprised by Israeli prime minister Binyamin Netanyahu's immediate rejection. It remains to be seen what transpires when the two leaders meet in Washington later today; but it would not, in our view, be surprising to see a cooling in their relationship similar to that which surrounded the US push for a settlement freeze in 2009.

Historically, Israeli prime ministers who have overseen open differences with Washington have tended to lose support among the Israeli electorate; and since the start of the "Arab Spring", Mr Netanyahu's Likud party has been losing ground to the centrist Kadima in opinion polls (something of a surprise, in our view, given that – again historically – Israeli support for Likud has tended to increase at times of concern over national security, which this clearly is). On the other hand, Mr Netanyahu will be well aware that elements in his ruling coalition strongly oppose a settlement based on the 1967 borders. And he will hope to garner support for that stance in the US too – indeed, potential leading Republican presidential candidate Mitt Romney has already been openly critical of Mr Obama's statement claiming that it "undermined [Israel's] ability to negotiate peace" and "violated a first principle of American foreign policy, which is to stand firmly by our friends".

Overall, we remain cautious about what impact, if any, the speech is likely to have on prospects for progress with the Middle East peace process (MEPP), at least in the short- to medium-term. Indeed, of more relevance to prospects may be the recent agreement between Fatah and Hamas in response to the "Arab Spring". If that agreement holds beyond September (when the Palestinians are still expected to seek a – largely symbolic – vote in the UN General Assembly recognising an independent Palestinian state, despite Mr Obama's explicit call to pull back from this), many commentators believe that Mr Netanyahu will come under increasing pressure from many quarters to resolve the longstanding stalemate in the Israel/Palestine conflict.

The other major political "takeaway" from the speech was the strong support for democracy promotion across the region, including what we see as an even-handed approach to America's allies (Bahrain) and others (Libya, Syria). Some pundits have already commented on how this may have been received in those countries which have not seen significant civil unrest to date. Furthermore, we believe that some in the Arab world may see a contrast between Mr Obama's support for democracy promotion and the reassertion of the longstanding US (and others', including the EU) conditionality on talking to Hamas. In this context, we await with interest Egyptian elections scheduled for September, which could result in an Islamist majority in the legislature (ie made up of representatives of the Muslim Brotherhood, the Salafists and other small Islamist parties), which would then be likely to push for cooler relations between Egypt and Israel. To be clear, this is not presently our core scenario (and we also acknowledge that the election of an Islamist president later in the year currently looks to be unlikely). But it is not a scenario which can be ruled out and if it were to come about it could further complicate the challenges which Mr Obama already faces in providing practical support for democracy promotion across the MENA region, as well as trying to move the MEPP forward.

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